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SCI China Market Update – July 2014

Dear friends,

Unlike U.S. holidays, many of China's holidays are fixed to the 1st day of a month. This may be related to China's culture of "An hour in the morning is worth two in the evening," and "The whole year's work depends on a good start in the spring." Anyway, the beginning of anything is very important and valuable in Chinese culture. So, May 1st is China's Labor Day holiday; June 1st is Children's Day; July 1st is the Chinese Communist Party "birthday"; August 1st is the Chinese Army's "birthday" and, October 1st is China's National Day holiday.

Many people in China and abroad were quite shocked by the way the Xi Jinping government celebrated the July 1st Party birthday. On June 30th, the front page of all major Chinese newspapers published headline news something like this: China's ruling party said there will be no tolerance of corruption in the Party and the military, no matter how high ranking an official may be. This came right after a top-level military general was kicked out of the Party on the eve of its birthday. The Political Bureau, composed of the 25 most powerful people in the country, expelled Xu Caihou from the Party for corruption. This is actually a little reminiscent of how Mao and Deng handled matters and shows that the new Xi government is indeed determined to fight corruption.

Xu, 71, former vice-chairman of China's Central Military Commission, is the highest military leader investigated since China's reform and opening-up in 1978. Importantly, he is also the second former member of the Political Bureau of CPC Central Committee investigated for corruption – the first being Bo Xilai, former Party chief of Chongqing. According to the political bureau, Xu accepted bribes related to promotions, and accepted money and gifts illegally.

Beijing also celebrated this year's Party birthday with a Political Bureau announcement that three senior officials were being expelled from the Part — Jiang Jiemin, former head of the State-owned Assets Supervision and Administration Commission of the State Council; Li Dongsheng, former vice-minister of Public Security; and Wang Yongchun, former Vice General Manager of China National Petroleum Corporation. Based on the many emails and messages that I received by WeChat, the Chinese people's reaction to all this is really very positive. They seem to be more confident that Mr. Xi's government can really do a better job of cleaning up government. If so, it is really encouraging news for those who wish to do business in China in a fairer competitive environment. Let's keep our eyes open and see.

I just returned home from China last week. I visited Beijing, Chengde, Tianjin, Shanghai, Ningde in Fujian Province and, Fuzhou, Capital of Fujian. It seemed that to me that many Chinese companies, state owned and private, are doing better than when I last visited. Also, we believe that more and more Chinese buyers are really looking more at value instead of only price. And on the supply side they are increasingly competing with design and engineering capability to produce higher quality products. For example, a privately owned company that I visited in a small city, Ningde, Fujian Province, comes to the US every year to participate in the huge PowerGen show, and has in fact already sold several million dollars in products to U.S. power equipment companies. Although there is a growing problem with labor shortage, the cleaner government environment and investment system will help many companies in China to grow this year.

Here is the latest China market news taken from a variety of public sources.

China factories show first improvement in six months

Two separate reports on China's manufacturing both suggest a rebound, with the privately compiled version showing its first improvement this year, and with economists offering a hat-tip to government stimulus measures. The final version of HSBC's manufacturing Purchasing Managers' Index (PMI) printed at 50.7 in June, just slightly below a preliminary reading of 50.8 for last month, but still well above May's final reading of 49.4.

The number was the first time since December that the final HSBC's China PMI had climbed past the 50 level that separates growth from contraction, which the compliers described as "the first improvement in business conditions" in six months.

Aiding the growth was the strongest expansion in 15 months for the report's "total new work" sub-index, while new export orders rose for the second month running. "We expect the official manufacturing PMI to rise to the range of 51.0-51.5 in coming months as the Chinese government rolls out a series of additional mini-stimulus measures," said Merrill Lynch economists Ting Lu and Xiaojia Zhi.

Small firms get a break on VAT

The Ministry of Finance announced that the value-added tax rate will be a flat 3 percent for many small businesses, effective July 1. The 4 percent and 6 percent rates were eliminated to make the system fairer, the ministry said. It is said the move is expected to reduce companies' tax burden by about 24 billion Yuan ($3.84 billion) a year. At present, VAT rates range from 2 percent to 17 percent. The rate cut will mainly benefit the water sector, small hydropower facilities, building materials producers and biological products manufacturers, all of which now pay 6 percent VAT.

China, Britain sign trade deals worth £14 billion

Britain and China signed trade deals worth more than £14 billion ($28 billion, 17 billion euros), during a visit to London by Premier Li Keqiang aimed at resetting economic and diplomatic ties. The largest deal was a £12 billion agreement between British energy giant BP and Chinese state-owned peer CNOOC to supply China with 1.5 million tonnes of liquefied natural gas per year over 20 years from 2019.

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Greece, China sign $4.6 billion in trade, investment deals
Greece and China signed over a dozen trade and investment deals worth some $4.6 billion (3.4 billion euros) as Chinese Prime Minister Li Keqiang began a three-day official visit. The deals included multi-billion-dollar Chinese bank loans to build at least 10 Greek-owned ships in Chinese shipyards. There are also agreements on the construction of solar energy parks in Greece, and trade deals involving marble, granite, wine and olive oil.

Coca-Cola invests $100m in green plant in Heilongjiang
Coca-Cola officially kicked off its new green plant construction in South Harbin Industrial City recently. The plant represents a $100 million investment and is part of the three-year, $4 billion investment plan in 2012-2014 that underscores the Coca-Cola Company's confidence in and commitment to China. The 200,000 square meter plant is designed to accommodate nine production lines for both sparkling and still beverages, including Coca-Cola, Sprite, Fanta, Minute Maid and Ice Dew. Upon completion, the total investment is expected to deliver an annual production capacity of 1.2 million tons of beverages.

China, Central Asian countries open 3rd gas line
The third line of the China-Central Asia Natural Gas Pipeline started to transport natural gas to China, China National Petroleum Corporation (CNPC) announced. The 1,830-km Line C of the pipeline, parallel to Line A and Line B, starts at the Turkmen-Uzbek border and runs through central Uzbekistan and southern Kazakhstan before reaching China's northwest region of Xinjiang.

The transport capacity of Line C, which currently stands at 7 billion cubic meters per year, is expected to hit 25 billion cubic meters by the end of 2015, comprising 10 billion cubic meters from Turkmenistan, 10 billion cubic meters from Uzbekistan and 5 billion cubic meters from Kazakhstan. By then, the three lines, built by CNPC and its central Asian partners, would have a combined capacity of 55 billion cubic meters per year. Line A was launched in December 2009, and Line B in October 2010. The building of Line D of the pipeline is expected to launch at the end of this year.

Report calls for building inland nuclear power stations
China should vigorously develop nuclear energy and restart the plan to build nuclear power stations inland to reduce the nation's high energy consumption per unit of gross domestic product and clear smog and haze, said a report released recently. The Report on the Development of China's Eco-Cities (2014), produced by the Chinese Academy of Social Sciences, said China's primary energy consumption in 2012 was 3.62 billion metric tons of standard coal, or 20 percent of the world's total consumption.

China creates 14,000 Yuan ($2,250) of GDP when burning one ton of standard coal. The figure is the equivalent of 25,000 Yuan for the global average, 31,000 Yuan for the Unites States, and

50,000 Yuan for Japan, the report said. China consumed about half of the world's coal in 2012. Half of the consumption was at its thermal power stations, a major discharger of airborne pollutants. As for hydropower, the country has already developed 46 percent of the 500 million kilowatts that is considered the total that can be exploited. In consequence, the report suggests restarting the plan to build nuclear power stations inland and reducing the number of thermal power stations to achieve greener urbanization.

China pours $52.8b into new railway projects
China is set to pump 327.3 billion Yuan ($52.8 billion) into railway construction this year, with all 14 new projects under way, China News Service reported.

Constructing railways that will stretch 3,712 kilometers across central and western areas of the country will be a top priority this year, according to the report citing the China Railway Corporation. One of the lines, set to connect Ejinaqi in the Inner Mongolian autonomous region and Hami in the Xinjiang Uygur autonomous region, will run 629.9 km across West China's Gansu province.

When completed, the Ejinaqi–Hami line, with an investment of 98.7 billion Yuan, is expected to become the most convenient shipping channel that bridges the country's northwestern and northern regions along the coast of the Bohai Sea, which will be a huge boost to local economies.
For more information about today's China market and opportunities please visit our website at www.s-c-i.com or call me at the number below, or Dr. Tim Weckesser at 610-828-8060.

Best regards

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